

WALL STREET JOURNAL
23 April 1985ARTICLE APPEARED
ON PAGE 1**Crude Estimate****Strength in Oil Prices****Isn't Likely to Last,****Many Analysts Think****Recent Rises Don't Reflect****Much Gain in Demand;****Barter Distorts Supplies****What the CIA Was Told**By YOUSSEF M. IBRAHIM
And ALLANNA SULLIVAN

Staff Reporters of THE WALL STREET JOURNAL

When last January's meeting of the Organization of Petroleum Exporting Countries broke up in disarray, conventional wisdom in the international oil fraternity was that prices were heading for a slide.

Since then OPEC has surprised skeptics by seeming to enforce at least partial production discipline. Oil companies have drawn down inventories sharply, suggesting they must soon increase their purchases. And prices have gone up some 15% instead of down.

The conventional wisdom today: Prices are still heading for a slide. "The bleeding has stopped, but the patient hasn't recovered," says Lawrence Goldstein, the executive vice president of the New York-based Petroleum Industry Research Foundation.

Analysts and industry officials say the pressures that have pushed free-market prices for such bellwether crude oils as West Texas Intermediate to \$29.60 a barrel yesterday from a low of \$25.20 in January are only temporary. Says one forecast, produced by the Wall Street firm of Salomon Brothers Inc.: "We now see factors developing that are setting the stage for the next downturn."

Advantages for Many

If so, that is for the most part good news for the U.S. and other industrialized nations. Oil-price moderation has been a major restraint on inflation and interest rates, and more price weakness could help stretch out a slowing U.S. recovery, economists say.

Softening oil prices would also be good news for the strained international banking system and for big Third World debtors that still import substantial quantities of oil. For debtors that export oil, such as Mexico and Nigeria, the price news isn't good, but the interest-rate implications are.

Among the factors leading Salomon and others to expect lower prices are sluggish world oil demand, large amounts of bartered oil on the market, continued skepticism about whether OPEC members will stay within their production quotas, continuing increases in non-OPEC production, and the slowing rate of economic growth in the U.S.

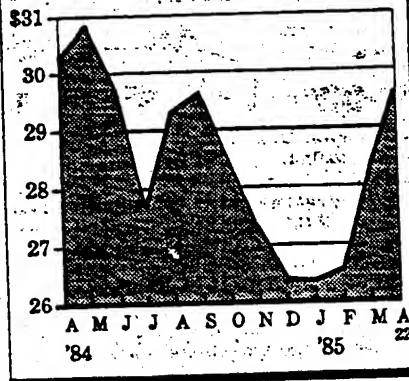
But if the outlook is that grim, how come prices are up, not down?

Russian Supplies

One answer is that the balance of supply and demand, if not as strong as producers might like, is much better than was expected a few months ago when OPEC seemed near collapse. "OPEC managed to keep prices from sliding over the cliff this winter," notes Robert Dederick, vice president and chief economist for Northern Trust Co. in Chicago.

OPEC had help.

A big drop in the delivery of Russian crude oil and refined oil products to Western Europe, induced by domestic shortages

Trend in Oil PricesMonth-end spot price per barrel
of West Texas Intermediate

and rough weather, cut supplies on the market for much of the winter. Last year, the Russians shipped member countries of the Organization for Economic Cooperation and Development as much as 2.3 million barrels a day of oil and products, according to the Paris-based International Energy Agency. But in the 1985 first quarter, Russian supplies to OECD fell to 1.8 million barrels a day.

On the demand side, an 11-month coal miners' strike led Britain to consume an extra 500,000 barrels of oil a day this past quarter to generate electricity.

And, paradoxically, industry expectations of lower oil prices have supported the current price bubble, says Philip Verleger, a consultant with Charles River Associates Inc. in Cambridge, Mass. Such expectations have kept inventories "lean and mean," he says, noting that "the real tightness during recent weeks has been for promptly delivered oil."

Private Consultation

(The squeeze pushed up crude-oil futures prices yesterday, but many traders remained bearish for the longer term; see page 50. On page 6 is an article on prospects for increasing U.S. dependence on energy imports.)

Most market gurus don't think the strength in crude-oil prices can last. "We won't have a collapse overnight, but fundamentals say it would be hard to prevent an erosion over the course of the next year or two," says Adam Sieminski, an energy specialist at Washington Analysis Corp., a consulting firm in the capital.

That was also the consensus at a by-invitation-only meeting on the oil outlook sponsored by the Central Intelligence Agency two weeks ago. A panel of 14 experts from industry, Wall Street and think tanks answered questions from CIA and other government-agency analysts at the closed meeting.

Although opinions on the panel varied, the majority held that prices will decline during the next two to three years to \$23 to \$25 a barrel, before starting to gather strength by the 1990s. For the near-term, prices may remain firm until the summer, although there will be day-to-day fluctuations, panelists generally believed.

One reason for expectations of longer-term decline is that recent price increases don't seem to reflect a recovery in worldwide demand. The International Energy Agency estimated in its end-of-March monthly oil-market report that oil consumption in OECD nations was 2.3% lower in the 1984 fourth quarter than a year earlier. It was probably down about 2% in the first quarter also, the IEA said.

Several industry officials and large international traders also expect OPEC members to exceed their production quotas as the lure of larger oil income becomes irresistible.

Oil traders also say they are seeing an increase in exchanges of oil for other goods. As a major Houston-based trader notes, "Every barrel of bartered oil that works its way into the market ends by backing out some other oil."

Over the past few weeks, a considerable number of barter arrangements have been signed by Iran, Iraq, Libya and Algeria. Saudi Arabia is currently negotiating a giant swap with France to get 46 Mirage-2000 jets for \$2 billion of oil, or the equivalent of 70,000 barrels a day over three years. Although the Saudis have issued a vague denial of some aspects of the deal, they confirm that oil is under consideration as a method of payment for Mirages.

Continued

STAT